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Publisher's Statement

It�s a tough climate out there. Who knows how long it will last. The Federal Reserve has been aggressive about lowering key rates at the risk of unleashing inflation as it attempts to bolster the economy. The housing outlook is still a rough road in home sales, new construction, new mortgages and refinances as this sector slowly shakes out.

There is actually nothing unusual about all this. The U.S. economy is cyclical: �x� number of years up and �y� numbers of months down � that is a cycle ending in a recession. So, 2008 is going to be neutral to negative in many sectors, and positive in sectors driven by aerospace, defense, oil exploration, and energy. With a low value dollar, the strategic markets are overseas, where economies are still growing.

There will be an impact on jobs. The question is, �will American business take out the weeds or just kill the entire lawn and garden?� Wholesale blowouts of divisions has been the past pattern, but with a vastly smaller pool of talented talent to draw from now and when the economy turns upward against a general worker shortage, businesses need to strategically downsize.

Now is the time to plan for the upturn, reorganizing and realigning positions and people. Businesses need to reduce their receivables and watch everything over 60 days carefully. Sales needs to look international as much as it looks domestically; albeit, selling to customers overseas is often abhorrent to American businesses. Domestically, they need to look for vendors who can deliver. That �second source� may become much more valuable and have resources and creativity to come through in a pinch when primary vendors may stumble. Deepen those second source relationships NOW!

For more information on the near-term economic outlook, check out the March 2008 Manufacturing ISM Report On Business� from the Institute of Supply Management (formerly the NAPM, or the National Association of Purchasing Managers � Purchasing Manager�s Report) and the latest ISM number of 48.6%

Welcome to Metals Outlook™ April 2008

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April 2008

Tom Stundza's Comments

Welcome to the April 2008 edition of MetalsWatch! This is Tom Stundza, executive editor of Purchasing Magazine and Purchasing.com.

The economy has stalled and inflation is accelerating even though the Federal Reserve Board has been easing interest rates aggressively. Yet, a powerful rally in commodity steel prices is defying the reduced manufacturing of steel-bearing products across the U.S. and Canada. The fact is that steelmakers are facing a tough business environment as prices of iron ore, coking coal, limestone, ferroalloy metals, scrap iron, fuel oil and natural gas are increasing. Stainless steelmakers also are seeing prices of key alloys nickel and chrome rebound this year, even though demand is in a slump.

So, in our **Cover Story**, we�ll discuss the implications of the fact that the U.S. economy has begun to contract in January and February of 2008�and actual factory orders and production have turned negative. An intense and unusually complex credit crunch has now been underway for seven full months, says Dana Johnson, chief economist at Comerica Bank in Detroit. Banks have significantly tightened credit standards for both business and consumer loans. Credit has become significantly more expensive and less available for most borrowers. The most obvious impact of the credit crunch has been to extend the recession in the housing market. But, starting in the fourth quarter, economic weakness became much more widespread, as growth in the gross domestic product (or GDP) essentially stalled at a 0.6% expansion.

At the same time, a large number of news headlines about additional steel price increases have been coming almost daily over the past few weeks. Announced steel prices, especially for flat-rolled products, are increasing much faster and to higher levels than most analysts had expected. Note that sheet mills are seeking late-spring price levels about 30% above year-end 2007 levels. So, the market mavens already have raised steel price forecasts a few times since December and believe now may need to do so again if current price talk materializes into firm steel orders.

In **Metals Chips**, we�ll explain why U.S. and Canadian hot-rolled sheet in coil prices will have increased to at least $735 per ton for April deliveries from $544 in December. We�ll also discuss why global prices are rising equally and just as fast, supported by strong demand and a 65% increase in iron ore pricing for fiscal 2008, starting in April. The U.S. is short of steelmaking capacity and, with very low inventories at the service center industry, needs more imports. But, there are strong inferences from foreign mills that the U.S. market remains an unattractive destination for imports, and equally strong implications from U.S. mills that they will be able to boost prices even further.

Failing to manage your company's talent needs, says Wharton management professor Peter Cappelli, �is the equivalent of failing to manage your supply chain.� Yet, most employers have abysmal track records when it comes to finding and retaining talent. In a slightly different **Purchasing Focus**, we�ll discuss his new book coming out in April titled, *Talent on Demand: Managing Talent in an Age of Uncertainty*, in which Cappelli offers a fundamentally different paradigm -- one that takes many of its lessons from just-in-time manufacturing -- for thinking about talent management.

I. Cover Story � How Long and How Deep?

Congress and the White House earlier this year settled on an economic stimulus package worth $168 billion with unusual speed, pushing the throttle to pull the economy out of a nosedive. Economic experts continue to argue whether priming the economy is going to work but they do agree that no economic boom is in the near-term forecast. In fact, lots of depressed economic data lately has heightened fears that the world's largest economy may be slipping into a recession�but buyers still believe �slow growth� best describes the manufacturing landscape. The averages of the Institute of Supply Management and Purchasing Magazine purchasing managers� indexes have been just at 50 for several months now. Still, the idea that the U.S. is operating at the fringes of a recession has gained some strength lately as total non-farm payrolls declined in January and February�and private payrolls have declined for three consecutive months.

There has been a sharp decline in discretionary consumer spending, most evident in weak light vehicle sales so far in 2008. More generally, confidence has ruptured. Both the Conference Board and University of Michigan indexes of consumer confidence show plunges typically seen only during recessions. The deterioration in business confidence is most apparent in the stock market, which is down by at least 16% from last fall�s peak and has declined for four consecutive months. Also note that the growth rate of the government�s industrial production diffusion index has been declining from weak activity in the manufacture of fabricated metal products, machinery and electrical equipment, appliances, and cars, light trucks and other transportation equipment other than airplanes. Some gurus see barely a 1% growth in manufacturing. That�s because industrial activity simply isn�t in a blue-skies scenario. Use of manufacturing capacity use has slipped below 80% of capability, reflecting excess capacity against current orders.

Metalworking and distribution�s purchasing of steel has been erratic in recent years, expecting pickups in end-product demand that haven�t occurred so they have overbought materials like steel and overbuilt their products in some years and sold from inventories in succeeding years. That happened again in 2006 and 2007 so net steel use declined 15% last year when many metalworking industries slowed production. Stainless and specialty steel use alone dropped by 13% in 2007. However, buyers are more cautious this year and there�s a chance for a 7% to 10% decline in U.S. steel demand this year if a metalworking recession takes hold.

In all likelihood, the manufacturing economy in general�and metalworking economy in particular�is going to have a tough year. Yet, even if a recession does occur, it is unlikely to be deep and prolonged. Still, while purchasing is off, steel prices have gone from the monthly upward creep of late 2007 to an explosive spike in early 2008. Analysts generally had accepted the view that steel prices would rise on some supply shortfalls in the early days of 2008 caused by an end to service center destocking, reduced imports because of the price disparity with higher global pricing and the attempt by domestic mills not to overproduce. But, there was little agreement on the rate of inflation�and certainly no expectation of the cost-driven spike being forced on buyers this quarter. Sheet steel prices in the U.S. alone are approaching record levels, 40% higher than just 7 months ago, and still rising. Such steel price volatility presents the industry and all steel buyers with extraordinary challenges.

II. Metal Chips � Prices Continue to Rise Globally

�Steelmaking raw-material costs have been soaring, partially due to the weak U.S. dollar, but also due to a tight market and weather conditions,� says analyst Charles Bradford at Bradford Research in New York. �This has put a lot of cost pressure behind the steelmakers, and they have responded with steel price increases.� So, domestically, steel buyers in the U.S. appear to be entering another stage of mourning� past denial and depression and into growing anger since they are reporting extreme difficulty in finding supply and are upset that prices have risen far too much. Some are very surprised about having to pay much higher steel prices despite recession forecasts. The mavens do admit 2008 could be the first time in history that U.S. steel prices increase during a U.S. manufacturing recession. However, analyst Mazzaferro says that �the anger among steel buyers appears to be driven by the lack of supply alternatives that are less expensive. With U.S. pricing still lower than elsewhere in the world, there is nowhere to turn for relief on pricing.�

Various analyses have pointed out that cold-rolled steel sheet prices are speeding upward at the fastest pace in a quarter century, even as the metalworking economy is losing steam. This is a supply-side price push that is defying Economics 101, a disease that economists call �stagflation.� They worry stagflation might smother whatever life is left in the durable goods manufacturing economy. The metals-using economy in the U.S. nearly stalled in the final three months of last year and probably is barely growing or even shrinking now. That's the �stagnation� part of the ailment. Typically, that slowdown should slow �inflation� as well, the second part of the diagnosis�but steel prices are still marching higher. The latest worrisome news is the fact that hot-rolled sheet prices have now increased by 31% since last summer while cold-rolled sheet tags have ascended by 27%. Wholesale prices now have climbed 7.4% in the past year, the biggest annual leap since 1998, due in part to the sustained growth of commodity materials prices since January 2007 including steel sheet.

Interestingly, most of the actual steel purchase orders so far this year have come from buyers at service centers seeking to replenish start-of-year inventories rather than from buyers at end-use companies who remain wary about holding excess stocks. That�s why, �in early 2008, the steel market is difficult to understand,� writes Dave Phelps, president of the American Institute for International Steel. �The domestic industry has continued to increase its prices in rapid-fire fashion (yet) the market has supported the increases so far,� says Phelps. And that�s happened even though the signs are unmistakable that the economy is in trouble and more and more economists foresee the country falling into a recession. Phelps believes that �the domestic steel industry�s new market power�that is, three mills controlling 70% of flat-rolled and some long products�gives them the ability to �manage supply� and keep prices up.� But there are major disagreements whether market demand is strong enough to support all of the price increases being proposed by Nucor, ArcelorMittal and U.S. Steel, plus the smaller mills, which would bring the midyear HRC transaction price around a record-high $780/ton. While such observers as Phelps believe that �demand is sufficiently strong enough to support the new price increases,� others aren�t so sure. Peter Dennen, senior vice-president of the Grand Rapids, Mich-based Dennen Steel service center company, says that �demand just isn�t there.� He tells Purchasing that �there�s plenty of steel around based on the fact that the mills aren�t busy and are shipping orders early.�

The trade sector is providing some support to the manufacturing sector�especially for growing exports of steel and steel-containing products. In China, estimated use of steel nearly tripled between 2000 and 2006, while global use of steel nearly doubled. However, India and many other developing nations also are in historic urbanization drives and need all the steel they can get to build equipment and machinery, cars and trucks, kitchen appliances, bridges and highways, buildings and sewer systems. Demand remains strong globally, mostly from infrastructure projects overseas. On the supply side, global markets are experiencing a renewed tightness based on the lack of export volume from some traditional exporters such as Brazil, Russia, and a slowing in exports from China. In addition, India appears to be reverting to a larger net importer. Goldman Sachs analyst Aldo Mazzaferro says these subtle changes in material flow are coming in unison and are something of a surprise to the world. For that reason, he expects much of the global increases in steel pricing to stick. And, he sees implications for the U.S. market that are even more bullish in terms of price increases for carbon and alloy steel grades.

Meanwhile, the rising costs of ferrochrome, molybdenum and nickel are pushing ever upward the transaction prices for highly corrosion-resistant ferritic grades of stainless steel. The analysts at MEPS (International) Ltd. say the North American average transaction values in February for type 430 cold-rolled sheet in coil was $1,965 per net ton. And further substantial increases are expected in March at all time high of $2,084 Austenitic stainless steels are more than 70% of total stainless steel production. These typically 300-series steels contain a minimum of 16% chromium and various amounts of nickel or manganese. U.S. transaction prices of hot-rolled and cold-rolled sheet in coil for Grade 304 moved down in February and early this month as a result of stable basis values and lower alloy surcharges�especially the January and February nickel price. However, the prices are expected to increase again this month and next�partly because service centers are restocking inventories, nickel has been climbing gradually again and, most importantly, because of ferrochrome supply problems.

Specialty steel producers have been expecting buyers to re-enter the market for stainless steels in early 2008, but buying continues on an as-needed basis. Reason: The stainless-using manufacturing sector is contracting these days. �The stainless steel market has been very weak for some time,� writes Michael Gambardella at J.P. Morgan Securities in New York, �as buyers have held off purchasing as they wait for falling nickel prices to result in lower stainless prices.� That hasn�t happened, though, since nickel prices are rebounding early this year, and so are stainless sheet and plate prices.

Supply chain managers "ask questions like, 'Do we have the right parts in stock?' 'Do we know where to get these parts when we need them?' and 'Does it cost a lot of money to carry inventory?' These questions are just as relevant to companies that are trying to manage their talent needs," he says. In other words, the principles of supply chain management, with its emphasis on just-in-time manufacturing, can be applied to talent management. We�ll discuss this in Purchasing Focus when we return, but first this.

III. Purchasing Focus � People Power!

Peter Cappelli, the author of a book coming out in April titled, *Talent on Demand: Managing Talent in an Age of Uncertainty*, says that purchasing professionals can teach their human relations peers how look for personnel from the perspective of money and costs, and what happens if the right people aren�t in place to do the necessary jobs. Those who study supply chain management actually managing uncertainty and variability all the time. This same uncertainty exists inside companies with regard to talent development, says the George W. Taylor Professor of Management Director at the Wharton School at the University of Pennsylvania.

Companies rarely know what they will be building five years out and what skills they will need to make that happen; they also don't know if the people they have in their pipelines are going to be around." Part of the problem is that many companies are locked into an older paradigm based on the assumption that they can accurately meet their talent needs through static forecasting and planning models, even though the global marketplace is an increasingly unpredictable, unforgiving environment. �The idea that we can achieve certainty through planning is no longer true,� Cappelli states. �Instead, we have to deal with uncertainty by being more responsive and adaptable.�

The term �talent management� simply means �trying to forecast what we are going to need, and then planning to meet that need,� Cappelli notes. The definition of supply chain management is essentially the same: �We think that demand for our products next year is going to be 'X'. How do we organize internally to meet that demand?� Underlying supply chain questions is the issue of inventory, which in talent management terms often comes up when employers talk about having a �deep bench� of talent. �You hear that phrase a lot��we have a deep bench� or �we have a big talent pipeline��and it is said with pride,� Cappelli says. �Yet, if you think about it in supply chain terms, a deep bench is the equivalent of lots of inventory, which sounds terrible when we think of products. In fact, it is worse when we talk about talent.�

Cappelli says that's because an inventory of talent is much more costly than an inventory of widgets. Talent doesn't sit on the shelf like widgets do. You have to keep paying talent. And the best way to have a piece of talent walk away is to tell it to sit on the shelf and wait for opportunity. �Anyone who is ambitious will leave, and then you will lose the big upfront investment you made in that person,� Cappelli concludes.

And that concludes our Purchasing Focus and this edition of Metals Watch! This is Tom Stundza, executive editor of Purchasing Magazine and Purchasing.COM.

Thanks for your time and hope that you have enjoyed reading MetalsOutlook™. Don't forget to subscribe so that you won't miss an issue.

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